

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Newaygo	County Newaygo
Fiscal Year End 6/30/06	Opinion Date 10/23/06	Date Audit Report Submitted to State 11/08/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Brickley DeLong PLC		Telephone Number 231-726-5800	
Street Address 316 Morris Avenue		City Muskegon	State MI
Zip 49443			
Authorizing CPA Signature <i>Timothy D. Arter, CPA for Brickley DeLong, PLC</i>		Printed Name Timothy D. Arter	License Number 10253

City of Newaygo
Newaygo County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2006

City of Newaygo

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CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

The City Manager and staff of the City of Newaygo present to the readers of the City's financial statements this overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage you to consider the information presented in the financial statements, which begin on page 3, along with the additional information that has been furnished in this letter.

FINANCIAL HIGHLIGHTS

- The City completed a \$2,800,000 federal grant and received loans totaling \$2,800,000 from USDA Rural Development for water and sanitary sewer system repairs and improvements. The City was able to save money on the original projects and complete many other needed projects, as well as purchase additional new equipment.
- The City's Michigan State Housing Development Authority (MSHDA) grant was completed during fiscal year 2006. As part of the grant nine residential apartments were rehabilitated at a total project cost of approximately \$475,000 of which \$225,000 was funded by the MSHDA grant and the balance was funded by the apartment owners.
- During the year, the City installed arch ways over parking lot entrances and a speaker system downtown as well as constructing a pavilion and creek overlooks in Marshall Park.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) notes to the financial statements and 3) fund financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

In the statement of net assets and the statement of activities, the City is divided into three kinds of activities:

- Governmental activities - Most of the City's basic services are reported here, including public safety, public works, general administration, community and economic development and parks and recreation. Property taxes and state shared revenues finance most of these activities.
- Business-type activities - The City charges a fee to customers to help it cover all or most of the cost of certain services provided. The City's water and sewer systems are reported here.
- Component Unit activities - Component units are separate legal entities for which the City of Newaygo has some level of financial accountability. The City has two component units, the Tax Increment Finance Authority (TIFA) and Local Development Finance Authority (LDFA). TIFA and LDFA exist primarily for the issuance and repayment of debt to finance improvement projects in specific areas of the City.

Fund Financial Statements

The fund financial statements begin on page 5 and provide detailed information about the most significant City funds - not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City Council has established several other funds to help it control and manage money for particular purposes. The City has the following kinds of funds:

- Governmental funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view of the City's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental funds in reconciliation along with the fund financial statements.
- Proprietary funds - When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. The City's Enterprise and Internal Service funds are proprietary funds. The City's water and sewer operations comprise the enterprise funds. The Building Authority and Equipment Pool comprise the Internal Service funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.
- Fiduciary funds - The City is the trustee, or fiduciary, for certain funds. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund and Major Streets Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis of the government-wide financials focuses mainly on two things, net assets (Statement of Net Assets) and changes in net assets (Statement of Activities) of the City's governmental and business-type activities. The Component Units (TIFA and LDFA) are not included in these figures.

Net Assets

The first table presented below is a summary of the government-wide statement of net assets for the City of Newaygo. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of June 30, 2006, the City's net assets from governmental activities totaled \$6,631,355 and \$7,187,037 from business-type activities, creating a total government-wide net assets total of \$13,818,392.

In examining the composition of these net assets, the reader should note that net assets for governmental activities are mostly invested in capital assets (i.e., streets, buildings, land, vehicles, equipment, etc.). These assets are used to provide services to the City's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities actually depict a balance of \$530,427. This represents the amount of discretionary resources that can be used for general governmental operations. Restricted net assets, those restricted mainly for streets and highways, debt service, and capital projects were \$258,668.

Some of the more significant change in activities from last year are as follows: For governmental activities, current and other assets decreased by \$53,776. This decrease was the result of the collection of outstanding grant receivables from the prior year and utilizing these revenues to pay current liabilities related to the grant. Capital assets decreased by \$379,154. This decrease in capital assets was due to normal depreciation of capital assets exceeding current year additions. Capital assets net of related debt decreased by \$227,315. This decrease was due to a decrease in capital assets offset by a decrease in capital related debt.

For business activities, current assets and other assets and current liabilities decreased by approximately the same amount as current resources were used to reduce liabilities. Capital assets decreased by \$300,000 due to normal depreciation exceeding current year capital additions. Net assets invested in capital assets, net of related debt decreased by \$265,590 due to the decrease in capital assets discussed above exceeding the repayment of capital debt.

Net assets (in thousands) as of June 30, follows:

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current assets and						
other assets	\$ 1,322	\$ 1,376	\$ 575	\$ 803	\$ 1,897	\$ 2,179
Capital assets	<u>6,734</u>	<u>7,113</u>	<u>9,767</u>	<u>10,067</u>	<u>16,501</u>	<u>17,180</u>
Total assets	8,056	8,489	10,342	10,870	18,398	19,359
Current liabilities	210	364	143	397	353	761
Noncurrent liabilities	<u>1,215</u>	<u>1,161</u>	<u>3,012</u>	<u>3,020</u>	<u>4,227</u>	<u>4,181</u>
Total liabilities	<u>1,425</u>	<u>1,525</u>	<u>3,155</u>	<u>3,417</u>	<u>4,580</u>	<u>4,942</u>

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Net assets						
Invested in capital assets, net of related debt	\$ 5,842	\$ 6,070	\$ 6,688	\$ 6,953	\$ 12,530	\$ 13,023
Restricted	259	300	184	182	443	482
Unrestricted	530	594	315	318	845	912
Total net assets	<u>\$ 6,631</u>	<u>\$ 6,964</u>	<u>\$ 7,187</u>	<u>\$ 7,453</u>	<u>\$ 13,818</u>	<u>\$ 14,417</u>

Change in Net Assets

Governmental Activities

Expenditures for the City's governmental activities exceeded revenues by \$332,897. Operating grants and contribution increased by \$393,140 due to a MSHDA grant of \$225,000 and related private sector contributions of \$260,000. The other major source of operating grants is state shared revenue for the Major Streets and Local Streets funds. Major Streets and Local Streets funds combined revenue was down \$1,886 (-1.1%). Capital grants and contributions decreased by \$741,593 from the prior year due to the conclusion of CDBG and MDOT Enhancement grants during the year. The property tax revenues were flat during the year and there was no change in the property tax millage rate and the component units capture the majority of the increase in taxable value. Grants and Contributions not restricted to a specific program is comprised of state shared revenues and contributions from the TIFA and LDFA component units. State shared revenues was \$168,144, a decrease of \$1,892 or .9% from the prior year. TIFA and LDFA disbursed a total of \$195,000 to the City's General Fund. This was an increase of \$30,000 or 18.2% from the prior year.

Expenditures changed little for the year with the exception of community and economic development. Community and economic development expenditures increased by \$436,965. This increase in expenses was directly related to the MSHDA grant discussed above.

Business-Type Activities

Operating revenues for the business-type activities were \$838,262, a decrease of approximately \$23,000 or 2.7%. This decrease was the result of a decrease in usage related to a sprinkling ban in the summer of 2005 and a cool wet spring which also caused a decrease in sprinkler usage. Capital grants and contributions, mostly from Rural Development, totaled \$2,014,151 for fiscal year 2005 and decreased as the projects were almost entirely completed in the prior year.

Operating expenses for the business-type activities were \$1,004,118, an increase of \$262,524 or 35.4%. This figure is comprised of three parts, administration, operations, and depreciation. The increase was primarily the result of an increase in depreciation related to the depreciation of the new capital assets placed in service in the prior year.

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

Changes in net assets (in thousands) as of June 30, follows:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues						
Charges for services	\$ 163	\$ 173	\$ 838	\$ 861	\$ 1,001	\$ 1,034
Operating grants						
contributions	675	282	-	-	675	282
Capital grants and						
contributions	80	822	40	2,014	120	2,836
General revenues						
Property taxes	274	272	-	-	274	272
Franchise fees	10	13	-	-	10	13
Grants and contributions						
not restricted	363	335	-	-	363	335
Unrestricted investment						
earnings	34	29	9	9	43	38
Other	35	38	-	-	35	38
Gain on sale of						
of capital asset	-	57	-	-	-	57
Total revenues	1,634	2,021	887	2,884	2,521	4,905
Expenses:						
General government	312	312	-	-	312	312
Public safety	324	353	-	-	324	353
Public works	669	653	-	-	669	653
Community and economic						
development	511	74	-	-	511	74
Culture and recreation	118	134	-	-	118	134
Interest on long term debt	33	33	-	-	33	33
Sewer	-	-	589	444	589	444
Water	-	-	564	421	564	421
Total expenses	1,967	1,559	1,153	865	3,120	2,424
Change in net assets	(333)	462	(266)	2,019	(599)	2,481
Net assets - Beginning	6,964	6,502	7,453	5,434	14,417	11,936
Net assets - Ending	\$ 6,631	\$ 6,964	\$ 7,187	\$ 7,453	\$ 13,818	\$ 14,417

ANALYSIS OF THE CITY'S INDIVIDUAL FUNDS

As stated earlier in this discussion and analysis, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2006, the City governmental funds reported a combined fund balance of \$465,415. This number represents the fund balance of \$200,617 in the General Fund and \$264,798 in other governmental funds. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to 1) liquidate contracts and purchase orders, 2) pay debt service, and 3) capital purchases. When the fund balance has been adjusted to account for these reserves, the result is a final unreserved fund balance of \$320,426, which consists of unreserved fund balance of \$184,747 in the General Fund plus the unreserved fund balance of \$135,679 in other governmental funds.

The General Fund is the chief operating fund of the City. Its reserved and unreserved fund balances are mentioned above. During the current fiscal year, the General Fund saw a fund balance decrease of \$20,971. There was a decrease in revenues due to the end of a federal public safety grant. Public safety expenditures decreased due to an open position within the police department. This open position resulted in a decrease in wages and fringe benefits. Public works decreased due the prior year including a one time special payment.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the governmental financial statements, but in more detail. In the financial statements, Sewer, Water, and Internal Service funds are grouped together as "Proprietary Funds". Unrestricted net assets of the Sewer Fund were \$81,524, an increase of \$13,688. Unrestricted net assets of the Water Fund were \$233,521, an increase of \$16,831. Unrestricted net assets of the Internal Service Funds were \$33,058, an increase of \$24,573.

The largest single item to note for the Water and Sewer Funds is depreciation expense. With large infrastructure improvements and equipment purchases in the last few years, the City has more and newer capital assets that are depreciated each year. The Sewer Fund ended the year with an increase in cash reserves and water had a decrease for the year. The Water Fund's cash decreased due to installation of new water mains along with the reconstruction of Croton Road and a decrease in sprinkling meter revenue for the year.

The internal service fund had an increase this year as the fund continues to be run more effectively and maintenance costs for vehicles has declined do to a rotation schedule for the purchase of equipment.

Component Units

Component units are separate legal entities for which the City of Newaygo has some level of financial accountability. The City's Component Units consist of the Tax Increment Finance Authority (TIFA) and the Local Development Finance Authority (LDFA). Due to the fact that TIFA and LDFA finance many infrastructure projects through property tax revenues and debt issuance, but do not owning any infrastructure to offset the debt, these funds show large deficits for net assets. Overall these funds improved as their negative net asset values became smaller. The net assets deficit of the TIFA was \$2,089,861, a gain of \$525,507. The LDFA ended the year with positive net assets of \$23,634.

CITY OF NEWAYGO, MICHIGAN

Management's Discussion and Analysis

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council amended the General Fund budget. The most significant of these budget amendments was a reduction in property tax revenues \$25,500 due to estimating lower property tax revenues and an increase in the Attorney budget due to higher than anticipated legal fees.

The final amended budget to actual showed no significant budget variances. Property tax revenues came in higher than estimated and investment income exceeded budget due to the rise in interest rates throughout the year. Overall revenues exceeded budget. There were also no significant fluctuations in the final budget to actual comparison. Overall expenditures came in under budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the City had \$16,500,259 invested in a broad range of capital assets including land, buildings, public safety equipment, roads, parks and water and sewer lines. This represents a decrease of \$379,816 from last year. There were no significant additions or deletions during the year. This decrease is the result of normal depreciation of capital assets. Additional information on capital assets can be found in note E of the notes to the financial statements.

Long-Term Debt

At June 30, 2006 the City had \$4,428,055 in long-term debt outstanding. This amount is comprised of many different debt obligations, most of which is attributed to debts on infrastructure for water and sanitary sewer systems. There was an increase of \$175,000 in MSHDA obligations which are supported by an equivalent receivable from the property owners who received the benefit of the grant. This program is complete and the debt will be removed over the next five years. The City also received its final draw on the Rural Development bonds of \$51,000.

In addition to the City's debt, the TIFA and LDFA components units have outstanding long-term debt totaling \$7,057,738. \$5,335,738 of this debt is owed on the Magna Donnelly building which is presently owned by the TIFA. Debt issued by the component units is typically secured by the limited full faith and credit of the City and so is an important consideration in assessing the City's overall fiscal health.

Additional information concerning component units' long-term debt is presented in note H of the notes to the financial statements.

GENERAL ECONOMIC OVERVIEW

The City depends on four major sources of income to fund operations: local property taxes, state shared revenues from sales tax, state street funds, and water and sewer utility fees. Clearly, discussion of the City's financial outlook must center on these major income sources.

Local Property Tax

The current 2006-07 budget includes the same millage rate of 18.8500 as levied in the 2005-06 budget. The City Council and staff continue to discuss the need to decrease the tax burden and promote economic growth. The Newaygo Economic Development Office (NEDO) continues to work diligently toward that end. Good managed growth will add to the tax revenue of the City and help to reduce the tax burden on each individual tax payer of the City while improving the quality of life for all citizens.

Another factor influencing property tax revenues is Proposal A (1994). The statewide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because certain properties may increase in value by less than inflation, the result is that the City's total taxable value may grow less than inflation. In addition, almost the entire City is part of a TIFA district. This means that most of the tax revenue available to the General Fund for City operations is capped at a certain amount. This has been true since the formation of the TIFA District back in 1985. However, a new transfer of land into the City through a PA 425 agreement was completed in April 2006 that will bring additional tax revenues to the City's General Fund that will not be captured by the TIFA. The City has also filed petitions to the State Boundary Commission to annex certain "island" township parcels located within the City limits. These parcels are surrounded by City residents and business and have benefited from being located within the City, but have not paid City taxes like the rest of the citizens of the City. If these petitions are approved, this will bring additional tax revenue to the City's general fund that is not captured by TIFA.

State Shared Revenues

State shared revenues are based on sales tax revenues. This revenue source decreased slightly this year again. The economy in Michigan continues to suffer, currently one of the worst in the United States. If the economy recovers, this revenue should increase. Management continues to monitor this situation and the affect any changes will have on the City's budget. State shared sales tax revenues represent approximately 25% of total General Fund revenues. Over the past 5-6 years, the amount of revenue sharing received by the City has decreased every year. This year the revenue stayed level with only a minor decrease of about \$1,892. For the fiscal year ending June 30, 2006, the City received \$168,144 from state sales tax revenue sharing. In the next year the City expects this revenue to stay level or decrease slightly as it will take time for the economy to recover in the State of Michigan.

Street Funds

The State also returns to the City a share of gasoline tax revenues to help fund maintenance and construction of major and local streets in the City. These revenues have not suffered to the extent that general state sales tax revenues have. Over the past 5-6 years, revenues for streets have increased or remained level at worst. This year's financial statements saw a decrease. Major street revenues decreased 1.0% to a total of \$124,223. Local street revenues decreased 1.7% to a total of \$43,431. The slight downturn in revenues seems to be due to increased gasoline prices and a poor economy as motorists purchase less gasoline. As mentioned above, due to the slow recovery of the Michigan economy, the City expects this revenue to stay level or decrease in the next year.

Water and Sewer Fees

Other than local property taxes, combined water and sewer fees represent the City's largest income source totaling approximately \$750,000. Charges to customers are based on the amount of metered services used times rates periodically set by the City Council. Rates did not change in the 2005-06 fiscal year. It is anticipated that rates will remain unchanged in the 2006-07 fiscal year. However, the City continues to review its fee policies in order to equitably charge for water and sewer usage. The City hopes to keep its water and sewer rates level by bringing in new growth to generate new revenue. There is a large project in the design phase that, if constructed, would bring new water and sewer revenues to the City.

The City has also begun to put away contingency funds for water and sewer infrastructure replacements. This will help to reduce or eliminate large bond issues for future improvements. Due to money received by Rural Development, the City has also installed or repaired much infrastructure and purchased new equipment relating to the water and sewer systems. This is significant because it helps to keep repair and maintenance costs down and also provide capacity for the future growth of the City.

The next major capital outlay, approximately \$3,000,000, will come from the need for an additional City water well, an expanded iron removal plant for the Water Fund, and an additional water tower. The City is looking at ways to cover these costs with minimal burden to the citizens of the City.

Miscellaneous

The City is doing a number of things to exercise good fiscal responsibility. The City has responded to the economic downturn and pressure on revenues by reducing program expenses. The City has hired people with skills to handle different tasks "in-house" rather than paying expensive consultants or other third parties. The City has also started various maintenance or replacement programs for vehicles, heavy machinery and office equipment in order to keep maintenance expenses down and to eliminate large capital outlays for wide spread replacements. The City now has a retirement health savings plan to reduce the City's future liability on accumulated leave time. The City is also working on a capital improvement program to project expenses five years into the future. Lastly, the City recognizes the value of its employees and the need for good, well trained, professional people that exhibit leadership and a positive attitude. With this in mind the City has increased its focus on training, safety, risk management, and people skills.

Newaygo Riverbank Development

Currently the City is working with investors and developers that are designing a Planned Unit Development that will be an upscale log decor village with a core lodge facility that includes fine dining, a lounge, spa, recreation opportunities, and condos. The development would be approximately 230 acres and is west of Mundy Ave and adjacent to the Muskegon River. This project is very exciting for the City of Newaygo and could bring millions of dollars of taxable value helping to further revive the Newaygo economy.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designated to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Office at 28 State Road, PO Box 308, Newaygo, Michigan 49337 or call (231) 652-1657.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 23, 2006

Honorable Mayor and Members
of the City Council
City of Newaygo
Newaygo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newaygo as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Newaygo's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Newaygo, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2006, on our consideration of the City of Newaygo, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

City Council
October 23, 2006
Page 2

The management's discussion and analysis and budgetary comparison information on pages i - ix and 34 - 35 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Newaygo's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

City of Newaygo
STATEMENT OF NET ASSETS (DEFICIT)
June 30, 2006

	ASSETS			
	Governmental activities	Business-type activities	Total	Component units
CURRENT ASSETS				
Cash and investments	\$ 402,948	\$ 262,165	\$ 665,113	\$ 219,301
Receivables	59,400	121,813	181,213	-
Due from primary government	-	-	-	34
Due from other governmental units	98,037	-	98,037	3,360
Inventories	-	6,812	6,812	-
Prepaid items	15,870	-	15,870	-
Total current assets	576,255	390,790	967,045	222,695
NONCURRENT ASSETS				
Restricted assets	-	184,276	184,276	374,745
Capital assets, net				
Nondepreciable	475,473	429,500	904,973	81,850
Depreciable	6,258,142	9,337,144	15,595,286	4,542,223
Special assessments receivable	321,524	-	321,524	-
Notes receivable	425,000	-	425,000	-
Total noncurrent assets	7,480,139	9,950,920	17,431,059	4,998,818
Total assets	8,056,394	10,341,710	18,398,104	5,221,513
LIABILITIES AND NET ASSETS (DEFICITS)				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	75,878	75,745	151,623	66,247
Due to component units	34	-	34	-
Due to other governmental units	-	-	-	163,755
Bonds and other obligations, due within one year	134,000	67,000	201,000	318,000
Total current liabilities	209,912	142,745	352,657	548,002
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	1,215,127	3,011,928	4,227,055	6,739,738
Total liabilities	1,425,039	3,154,673	4,579,712	7,287,740
NET ASSETS (DEFICITS)				
Invested in capital assets, net of related debt	5,842,260	6,687,716	12,529,976	(711,665)
Restricted for:				
Streets and highways	135,679	-	135,679	-
Capital projects	15,889	-	15,889	-
Debt service	107,100	184,276	291,376	374,745
Unrestricted	530,427	315,045	845,472	(1,729,307)
Total net assets (deficit)	\$ 6,631,355	\$ 7,187,037	\$ 13,818,392	\$ (2,066,227)

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF ACTIVITIES
For the year ended June 30, 2006

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			
		Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government			Component units
					Governmental activities	Business-type activities	Total	
Primary government								
Governmental activities								
General government	\$ 311,780	\$ 98,401	\$ -	\$ -	\$ (213,379)	\$ -	\$ (213,379)	\$ -
Public safety	323,910	15,910	12,287	-	(295,713)	-	(295,713)	-
Public works	669,263	48,616	167,655	-	(452,992)	-	(452,992)	-
Community and economic development	511,155	-	495,606	-	(15,549)	-	(15,549)	-
Culture and recreation	117,960	-	-	30,000	(87,960)	-	(87,960)	-
Interest on long-term debt	32,759	-	-	49,920	17,161	-	17,161	-
Total governmental activities	1,966,827	162,927	675,548	79,920	(1,048,432)	-	(1,048,432)	-
Business-type activities								
Sewer	588,975	397,347	-	690	-	(190,938)	(190,938)	-
Water	564,535	440,915	-	39,559	-	(84,061)	(84,061)	-
Total business-type activities	1,153,510	838,262	-	40,249	-	(274,999)	(274,999)	-
Total primary government	\$ 3,120,337	\$ 1,001,189	\$ 675,548	\$ 120,169	(1,048,432)	(274,999)	(1,323,431)	-
Component units								
Tax Increment Finance Authority	\$ 1,203,467	\$ -	\$ -	\$ -	-	-	-	(1,203,467)
Local Development Finance Authority	76,478	-	-	-	-	-	-	(76,478)
Total component units	\$ 1,279,945	\$ -	\$ -	\$ -	-	-	-	(1,279,945)
General revenues								
Property taxes					274,423	-	274,423	1,805,530
Franchise fees					9,637	-	9,637	-
Grants and contributions not restricted to specific programs					363,144	-	363,144	-
Unrestricted investment earnings					33,750	8,911	42,661	26,618
Miscellaneous					34,581	-	34,581	941
Total general revenues					715,535	8,911	724,446	1,833,089
Change in net assets					(332,897)	(266,088)	(598,985)	553,144
Net assets (deficit) at July 1, 2005, as restated					6,964,252	7,453,125	14,417,377	(2,619,371)
Net assets (deficit) at June 30, 2006					\$ 6,631,355	\$ 7,187,037	\$ 13,818,392	\$ (2,066,227)

The accompanying notes are an integral part of this statement.

City of Newaygo
BALANCE SHEET
Governmental Funds
June 30, 2006

	General Fund	Major Streets	MSHDA	Downtown Parking Lot Fund	Other governmental funds	Total governmental funds
ASSETS						
Cash and investments	\$ 135,462	\$ 86,842	\$ -	\$ 24,320	\$ 98,631	\$ 345,255
Receivables						
Accounts	19,400	-	-	-	-	19,400
Special assessments	-	-	-	286,036	75,488	361,524
Due from other funds	173	-	-	-	-	173
Due from other governmental units	54,340	20,511	-	8,372	14,813	98,036
Prepaid items	15,870	-	-	-	-	15,870
Total assets	<u>\$ 225,245</u>	<u>\$ 107,353</u>	<u>\$ -</u>	<u>\$ 318,728</u>	<u>\$ 188,932</u>	<u>\$ 840,258</u>
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 19,098	\$ 5,873	\$ -	\$ -	\$ 14,646	\$ 39,617
Accrued liabilities	5,530	-	-	-	-	5,530
Due to other funds	-	-	-	-	173	173
Deferred revenue	-	-	-	258,036	71,487	329,523
Total liabilities	<u>24,628</u>	<u>5,873</u>	<u>-</u>	<u>258,036</u>	<u>86,306</u>	<u>374,843</u>
Fund balances						
Reserved for:						
Prepaid items	15,870	-	-	-	-	15,870
Debt service	-	-	-	60,692	52,538	113,230
Capital projects	-	-	-	-	15,889	15,889
Unreserved, undesignated						
General fund	184,747	-	-	-	-	184,747
Special revenue funds	-	101,480	-	-	34,199	135,679
Total fund balances	<u>200,617</u>	<u>101,480</u>	<u>-</u>	<u>60,692</u>	<u>102,626</u>	<u>465,415</u>
Total liabilities and fund balances	<u>\$ 225,245</u>	<u>\$ 107,353</u>	<u>\$ -</u>	<u>\$ 318,728</u>	<u>\$ 188,932</u>	<u>\$ 840,258</u>

The accompanying notes are an integral part of this statement.

City of Newaygo
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2006

Total fund balance—governmental funds	\$	465,415
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 9,133,863	
Accumulated depreciation	<u>(2,672,816)</u>	6,461,047

Other long-term note receivable in governmental activities is not reported in the governmental funds.	425,000
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Accrued interest in governmental activities is not reported in the governmental funds.	(6,130)
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Special assessment revenue is not recognized until it is receivable in the current period and therefore is shown as deferred revenue in the governmental funds.	329,523
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Long-term liabilities in governmental activities are not due and payable in the
current period and are not reported in the governmental funds.

Bonds and notes payable	(1,091,000)	
Compensated absences	<u>(32,772)</u>	(1,123,772)

Internal service funds are used by management to charge the costs of certain activities
to individual funds. The assets and liabilities of the internal service funds are reported
in the governmental activities in the Statement of Net Assets.

	<u>80,272</u>
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Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>6,631,355</u></u>
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The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2006

	General Fund	Major Streets	MSHDA	Downtown Parking Lot Fund	Other governmental funds	Total governmental funds
REVENUES						
Property taxes	\$ 271,782	\$ -	\$ -	\$ -	\$ -	\$ 271,782
Licenses and permits	17,386	-	-	-	-	17,386
Intergovernmental revenues						
Federal	4,379	-	235,482	-	-	239,861
State	168,740	124,223	-	-	59,355	352,318
Local	202,313	-	-	-	-	202,313
Charges for services	141,320	2,447	-	-	33,575	177,342
Fines and forfeitures	9,827	-	-	-	-	9,827
Investment earnings	13,409	1,800	-	10,327	8,215	33,751
Other	34,311	-	260,123	56,824	94,707	445,965
Total revenues	863,467	128,470	495,605	67,151	195,852	1,750,545
EXPENDITURES						
Current						
General government	286,561	-	-	-	-	286,561
Public safety	313,140	-	-	-	-	313,140
Public works	154,553	104,965	-	-	89,261	348,779
Community and economic development	5,287	-	495,605	-	-	500,892
Culture and recreation	65,901	-	-	-	-	65,901
Other governmental functions	37,884	-	-	-	-	37,884
Debt service						
Principal	-	-	-	40,000	79,000	119,000
Interest and fees	-	-	-	12,849	13,490	26,339
Capital outlay	6,683	-	-	-	109,975	116,658
Total expenditures	870,009	104,965	495,605	52,849	291,726	1,815,154
Excess of revenues over (under) expenditures	(6,542)	23,505	-	14,302	(95,874)	(64,609)
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	24,429	24,429
Transfers out	(14,429)	(10,000)	-	-	-	(24,429)
Total other financing sources (uses)	(14,429)	(10,000)	-	-	24,429	-
Net change in fund balances	(20,971)	13,505	-	14,302	(71,445)	(64,609)
Fund balances at July 1, 2005	221,588	87,975	-	46,390	174,071	530,024
Fund balances at June 30, 2006	\$ 200,617	\$ 101,480	\$ -	\$ 60,692	\$ 102,626	\$ 465,415

The accompanying notes are an integral part of this statement.

City of Newaygo
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
 For the year ended June 30, 2006

Net change in fund balances—total governmental funds \$ (64,609)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (434,003)	
Capital outlay	<u>98,274</u>	(335,729)

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	119,000
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	1,720
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	7,747
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Governmental funds recognize special assessments as revenue as they become current, however they are recognized in full when levied in the Statement of Net Assets.	(75,013)
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The internal service fund is used by management to charge of certain activities to individual funds. The net change of the internal service funds is reported with the governmental activities.	<u>13,987</u>
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Change in net assets of governmental activities	<u><u>\$ (332,897)</u></u>
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The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF NET ASSETS
Proprietary Funds
June 30, 2006

ASSETS

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service funds
	Sewer	Water	Total	
CURRENT ASSETS				
Cash and investments	\$ 71,218	\$ 190,947	\$ 262,165	\$ 57,693
Accounts receivable	45,562	76,251	121,813	-
Inventories	3,888	2,924	6,812	-
Total current assets	120,668	270,122	390,790	57,693
NONCURRENT ASSETS				
Restricted assets	67,204	117,072	184,276	-
Capital assets				
Land	429,500	-	429,500	-
Utility systems	7,322,415	4,703,658	12,026,073	-
Vehicles and equipment	192,087	105,222	297,309	655,038
Less accumulated depreciation	(1,733,801)	(1,252,437)	(2,986,238)	(382,469)
Net capital assets	6,210,201	3,556,443	9,766,644	272,569
Total noncurrent assets	6,277,405	3,673,515	9,950,920	272,569
Total assets	6,398,073	3,943,637	10,341,710	330,262
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	16,460	4,873	21,333	18,135
Accrued liabilities	22,684	31,728	54,412	6,500
Bonds and other obligations, due within one year	13,000	54,000	67,000	34,100
Total current liabilities	52,144	90,601	142,745	58,735
NONCURRENT LIABILITIES				
Bonds and other obligations, less amounts due within one year	1,277,510	1,734,418	3,011,928	191,255
Total liabilities	1,329,654	1,825,019	3,154,673	249,990
NET ASSETS				
Invested in capital assets, net of related debt	4,919,691	1,768,025	6,687,716	47,214
Restricted for debt service	67,204	117,072	184,276	-
Unrestricted	81,524	233,521	315,045	33,058
Total net assets	\$ 5,068,419	\$ 2,118,618	\$ 7,187,037	\$ 80,272

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Proprietary Funds
For the year ended June 30, 2006

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service funds
	Sewer	Water	Total	
REVENUES				
Charges for services	\$ 372,248	\$ 376,520	\$ 748,768	\$ 176,233
OPERATING EXPENSES				
Administration	102,401	109,617	212,018	-
Operations	205,877	256,406	462,283	90,381
Depreciation	226,000	115,963	341,963	63,724
Total operating expenses	534,278	481,986	1,016,264	154,105
Operating income (loss)	(162,030)	(105,466)	(267,496)	22,128
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	1,352	7,559	8,911	-
Connection fees	25,099	64,395	89,494	-
Interest expense	(54,697)	(82,549)	(137,246)	(8,141)
Total nonoperating revenue (expenses)	(28,246)	(10,595)	(38,841)	(8,141)
Income (loss) before contributions and transfers	(190,276)	(116,061)	(306,337)	13,987
Capital contributions	690	39,559	40,249	-
Transfers out	-	-	-	(220,189)
Change in net assets	(189,586)	(76,502)	(266,088)	(206,202)
Net assets at July 1, 2005	5,258,005	2,195,120	7,453,125	286,474
Net assets at June 30, 2006	\$ 5,068,419	\$ 2,118,618	\$ 7,187,037	\$ 80,272

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended June 30, 2006

	Business-type Activities - Enterprise funds			Governmental Activities - Internal service funds
	Sewer	Water	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 363,524	\$ 348,046	\$ 711,570	\$ -
Receipts from interfund services provided	1,750	1,878	3,628	176,233
Payments to suppliers	(106,439)	(166,945)	(273,384)	(62,514)
Payments to employees	(159,756)	(164,275)	(324,031)	(12,058)
Payment for interfund services used	(24,086)	(29,698)	(53,784)	-
Net cash provided by (used for) operating activities	74,993	(10,994)	63,999	101,661
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt	-	51,000	51,000	-
Capital contributions	146,741	39,559	186,300	-
Connection fees	25,099	64,395	89,494	-
Purchases of capital assets	(190,175)	(64,768)	(254,943)	(20,300)
Principal paid on capital debt	(52,000)	(54,000)	(106,000)	(32,839)
Interest paid on capital debt	(54,913)	(83,521)	(138,434)	(9,941)
Net cash used for capital and related financing activities	(125,248)	(47,335)	(172,583)	(63,080)
CASH FLOW FROM INVESTING ACTIVITIES				
Investment earnings	1,352	7,559	8,911	-
Net increase (decrease) in cash and investments	(48,903)	(50,770)	(99,673)	38,581
Cash and investments at July 1, 2005	187,325	358,789	546,114	19,112
Cash and investments at June 30, 2006	<u>\$ 138,422</u>	<u>\$ 308,019</u>	<u>\$ 446,441</u>	<u>\$ 57,693</u>
Reconciliation of cash and investments to the balance sheet				
Cash and investments	\$ 71,218	\$ 190,947	\$ 262,165	\$ 57,693
Restricted assets	67,204	117,072	184,276	-
	<u>\$ 138,422</u>	<u>\$ 308,019</u>	<u>\$ 446,441</u>	<u>\$ 57,693</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities				
Operating income (loss)	\$ (162,030)	\$ (105,466)	\$ (267,496)	\$ 22,128
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities				
Depreciation	226,000	115,963	341,963	63,724
Change in assets and liabilities				
Receivables, net	(6,974)	(26,596)	(33,570)	-
Internal balances	7,000	7,000	14,000	-
Prepaid items	1,400	-	1,400	-
Accounts payable	8,929	(1,895)	7,034	15,809
Accrued liabilities	668	-	668	-
Net cash provided by (used for) operating activities	<u>\$ 74,993</u>	<u>\$ (10,994)</u>	<u>\$ 63,999</u>	<u>\$ 101,661</u>

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2006

	<u>Agency funds</u>
ASSETS	
Cash and investments	\$ 17,313
Due from other governmental units	<u> 10,576</u>
Total assets	\$ <u><u>27,889</u></u>
 LIABILITIES	
Due to other governmental units	\$ 20,496
Deposits held for others	<u> 7,393</u>
Total liabilities	\$ <u><u>27,889</u></u>

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF NET ASSETS (DEFICIT)
Discretely Presented Component Units
June 30, 2006

ASSETS

	Tax Increment Finance Authority	Local Development Finance Authority	Total
CURRENT ASSETS			
Cash and investments	\$ 174,477	\$ 44,824	\$ 219,301
Due from primary government	34	-	34
Due from other governmental units	2,220	1,140	3,360
Total current assets	176,731	45,964	222,695
NONCURRENT ASSETS			
Restricted assets	374,745	-	374,745
Capital assets, net			
Nondepreciable	81,850	-	81,850
Depreciable	4,542,223	-	4,542,223
Net capital assets	4,624,073	-	4,624,073
Total noncurrent assets	4,998,818	-	4,998,818
Total assets	5,175,549	45,964	5,221,513
LIABILITIES AND NET ASSETS (DEFICITS)			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	65,917	330	66,247
Due to other governmental units	163,755	-	163,755
Bonds and other obligations, due within one year	296,000	22,000	318,000
Total current liabilities	525,672	22,330	548,002
NONCURRENT LIABILITIES			
Bonds and other obligations, less amounts due within one year	6,739,738	-	6,739,738
Total liabilities	7,265,410	22,330	7,287,740
NET ASSETS (DEFICITS)			
Invested in capital assets, net of related debt	(711,665)	-	(711,665)
Restricted for debt service	374,745	-	374,745
Unrestricted	(1,752,941)	23,634	(1,729,307)
Total net assets	\$ (2,089,861)	\$ 23,634	\$ (2,066,227)

The accompanying notes are an integral part of this statement.

City of Newaygo
STATEMENT OF ACTIVITIES
Discretely Presented Component Units
For the year ended June 30, 2006

		Net (Expense) Revenue and Changes in Net Assets		
		Tax Increment Finance Authority	Local Development Finance Authority	Total
<i>Functions/Programs</i>	<u>Expenses</u>			
Tax Increment Finance Authority				
General government	\$ 157,979	\$ (157,979)	\$ -	\$ (157,979)
Public works	10,443	(10,443)	-	(10,443)
Community and economic development	296,253	(296,253)	-	(296,253)
Distributions to other taxing authorities	354,117	(354,117)	-	(354,117)
Interest on long-term debt	<u>384,675</u>	<u>(384,675)</u>	<u>-</u>	<u>(384,675)</u>
Total Tax Increment Finance Authority	1,203,467	(1,203,467)	-	(1,203,467)
Local Development Finance Authority				
General government	5,000	-	(5,000)	(5,000)
Distributions to other taxing authorities	69,408	-	(69,408)	(69,408)
Interest on long-term debt	<u>2,070</u>	<u>-</u>	<u>(2,070)</u>	<u>(2,070)</u>
Total Local Development Finance Authority	<u>76,478</u>	<u>-</u>	<u>(76,478)</u>	<u>(76,478)</u>
Total discretely presented component units	\$ <u><u>1,279,945</u></u>	(1,203,467)	(76,478)	(1,279,945)
General revenues				
Property taxes		1,703,741	101,789	1,805,530
Unrestricted investment earnings		24,290	2,328	26,618
Miscellaneous		<u>941</u>	<u>-</u>	<u>941</u>
Total general revenues		<u>1,728,972</u>	<u>104,117</u>	<u>1,833,089</u>
Change in net assets		525,505	27,639	553,144
Net assets (deficit) at July 1, 2005, as restated		<u>(2,615,366)</u>	<u>(4,005)</u>	<u>(2,619,371)</u>
Net assets (deficit) at June 30, 2006		\$ <u><u>(2,089,861)</u></u>	\$ <u><u>23,634</u></u>	\$ <u><u>(2,066,227)</u></u>

The accompanying notes are an integral part of this statement.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Newaygo (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City is a municipal corporation governed by an elected mayor and six-member City Council and is administered by a city manager appointed by the City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. The discretely presented component units are reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that they are legally separate from the government. Each discretely presented component unit has a June 30 fiscal year end.

Blended Component Unit

Building Authority. The City appoints all board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt remains with the City. The Authority was reported as an internal service fund. The Building Authority automatically dissolved when the repayment of all the long-term debt and the Building Authority's assets transferred to the City of Newaygo.

Discretely Presented Component Unit

Tax Increment Finance Authority (TIFA) and Local Development Finance Authority (LDFA). The TIFA and LDFA boards are appointed by the City Council, but the Authorities operate as a separate entity. The boards can authorize and issue debt independent from the City. The component units are presented as governmental fund types.

Newaygo Carnegie Library. The Library ceased to qualify as a component unit during the year. The Library has been removed from the financial statements and opening net assets has been restated by \$260,669.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Government-Wide and Fund Financial Statements—Continued

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund is used to account for gas and weight tax allocations to the City by the Michigan Department of Transportation for construction and maintenance of major streets within the City.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

The MSHDA Fund accounts for the rehabilitation of privately owned properties within the city using federal funds matched by contributions from local property owners.

The Downtown Parking Lot Fund accounts for special assessment revenues from local residents for principal and interest payments on special assessment bonds issued in 2003.

The City reports the following two major proprietary funds:

The Sewer Fund accounts for user charges, operating expenses and debt service of the City's sewer system.

The Water Fund accounts for user charges, operating expenses and debt service of the City's water system.

Additionally, the City reports the following fund types:

Internal Service Funds account for equipment management services provided to other funds of the government on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The component units' cash and investments are maintained within the City's investment pool.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables—Continued

The 2005 state taxable value for real/personal property of the City totaled approximately \$49,500,000 of which approximately \$36,280,000 was captured by the component units. The ad valorem taxes levied consisted of 18.85 mills for the City's operating purposes. This amount is recognized in the General Fund with the captured amounts shown in the TIFA and LDFA component units.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include all such items regardless of their acquisition date or amount. The City was able to estimate the historical cost of the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year).

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	10-20
Buildings and improvements	10-35
Office furniture and equipment	5-10
Vehicles and equipment	5-10
Infrastructure and shared improvements	10-50

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service. Any vacation which has not been used during the calendar year will be transferred to the employee's paid sick days accumulation at the end of the year. Upon termination, employees are paid for one-half of their accrued sick days as separation pay. If an employee dies, the full amount of accrued sick days will be paid to the employee's designated beneficiary. Sick leave is accumulated at the rate of one day per month of employment. Employees may accrue unused sick days up to a maximum of 120 days. On the last day of November of any calendar year, employees may elect to be paid for one-half of the unused sick days which they accumulated during the year (up to a maximum payment of six days).

The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the first Monday of May, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- c. Not later than the first Monday in December, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2006, the City had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Moody's	Percent
Money market mutual fund	\$ 1,050,078	36	AAAm	78.6 %
External investment pool	285,069	30	not rated	21.4
Total fair value	<u>\$ 1,335,147</u>			<u>100.0 %</u>
Portfolio weighted average maturity		<u>35</u>		

The City voluntarily invests certain excess funds in an external pooled investment pool (Pool). The Pool is an external investment pool of "qualified" investments for Michigan municipalities. The Pool is not regulated nor registered with the SEC. The fair value of the City's investments is the same as the fair value of the Pool.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Interest rate risk. The City's formal investment policy limits investment maturities two years or less based upon the type of investment.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. The City does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2006, \$169,117 of the City's bank balance of \$170,462 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The City does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

Restricted Assets

Restrictions are placed on assets by bond ordinance and City Council action. At June 30, 2006, restricted cash and investments in the enterprise funds and TIFA component unit are restricted as follows:

Business-type activities

Water Fund

Bond and Interest Redemption Fund	\$ 25,525
Bond Reserve Fund	<u>91,547</u>
	117,072

Sewer Fund

Bond and Interest Redemption Fund	22,204
Bond Reserve Fund	<u>45,000</u>
	67,204

\$ 184,276

Component units

TIFA

Bond interest and redemption	<u>\$ 374,745</u>
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After meeting the operation and maintenance and bond and interest redemption requirements of the bond ordinances, all remaining revenues of the system are to be paid to the bond reserve accounts until a sum equal to the maximum annual debt service requirement on the bonds has been accumulated. These amounts were achieved, as required.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE D—NOTES RECEIVABLE

The notes receivable of \$425,000 are second mortgages to individuals under the Michigan State Housing Development Authority Home Community Development Block Grant Housing program for rental rehabilitation. The mortgage notes are non-interest bearing. In the event the property is sold or any interest in the property is transferred, or a breach of grant conditions occurs within the first 5 years, the mortgagor shall pay the principal amount of the second mortgage. If the property is not sold or transferred for a period of 5 years and all provisions of the mortgage note are complied with, the mortgage note is cancelled.

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 91,342	\$ -	\$ -	\$ 91,342
Land improvements	305,956	-	-	305,956
Construction in progress	41,800	36,375	-	78,175
Total capital assets, not being depreciated	439,098	36,375	-	475,473
Capital assets, being depreciated:				
Land improvements	1,242,352	10,000	-	1,252,352
Buildings and improvements	1,597,385	-	-	1,597,385
Furniture, vehicles and equipment	780,438	20,300	-	800,738
Infrastructure	3,838,369	-	-	3,838,369
Shared improvements	1,772,686	51,898	-	1,824,584
Total capital assets, being depreciated	9,231,230	82,198	-	9,313,428
Less accumulated depreciation:				
Land improvements	311,020	62,618	-	373,638
Buildings and improvements	389,060	45,599	-	434,659
Furniture, vehicles and equipment	440,662	72,337	-	512,999
Infrastructure	1,332,107	198,995	-	1,531,102
Shared improvements	84,710	118,178	-	202,888
Total accumulated depreciation	2,557,559	497,727	-	3,055,286
Total capital assets, being depreciated, net	6,673,671	(415,529)	-	6,258,142
Capital assets, net	\$ 7,112,769	\$ (379,154)	\$ -	\$ 6,733,615

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE E—CAPITAL ASSETS—Continued

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 429,500	\$ -	\$ -	\$ 429,500
Capital assets, being depreciated:				
Sewer system	7,315,915	6,500	-	7,322,415
Water system	4,678,200	25,458	-	4,703,658
Equipment	287,966	9,343	-	297,309
Total capital assets, being depreciated	12,282,081	41,301	-	12,323,382
Less accumulated depreciation:				
Sewer system	1,478,024	201,662	-	1,679,686
Water system	1,123,172	104,287	-	1,227,459
Equipment	43,079	36,014	-	79,093
Total accumulated depreciation	2,644,275	341,963	-	2,986,238
Total capital assets, being depreciated, net	9,637,806	(300,662)	-	9,337,144
Capital assets, net	\$ 10,067,306	\$ (300,662)	\$ -	\$ 9,766,644

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:

General government	\$ 26,441
Public safety	21,413
Public works	349,637
Culture and recreation	36,512
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets	63,724
	<u>\$ 497,727</u>

Business-type activities:

Sewer	\$ 226,000
Water	115,963
	<u>\$ 341,963</u>

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE E—CAPITAL ASSETS—Continued

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Component units:				
Capital assets, not being depreciated:				
Tax Increment Finance Authority				
Land	\$ 40,950	\$ 40,900	\$ -	\$ 81,850
Capital assets, being depreciated:				
Tax Increment Finance Authority				
Building and improvements	7,300,000	-	-	7,300,000
Less accumulated depreciation:				
Tax Increment Finance Authority				
Buildings and improvements	2,514,444	243,333	-	2,757,777
Total capital assets, being depreciated, net	4,785,556	(243,333)	-	4,542,223
Capital assets, net	\$ 4,826,506	\$ (202,433)	\$ -	\$ 4,624,073

Depreciation

Depreciation expense has been charged to functions as follows:

Community and economic development	\$ 243,333
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NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Due to/from other funds:

At June 30, 2006, the Barton/Division Special Assessment Fund owed the General Fund \$173. The outstanding balance was a temporary loan from the General Fund for operational purposes.

Interfund transfers:

	Transfers in:		
	Other governmental funds	Total	Purpose
Transfers out:			
General Fund	\$ 14,429	\$ 14,429	Debt service
Major Street Fund	10,000	10,000	Public works
	\$ 24,429	\$ 24,429	

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE F—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS—Continued

Interfund transfers:—Continued

In addition, the Building Authority transferred the remaining capital assets of \$220,189 to the General Fund. Since the Building Authority was already included in the total governmental activities capital assets, no offsetting transfer is recorded.

Component unit transactions:

During the year the TIFA and LDFA contributed significant amounts to the City as follows:

	<u>Governmental activities</u>
Capital activities	
TIFA	\$ 49,920
Operating activities	
TIFA	145,000
LDFA	<u>50,000</u>
	<u>\$ 244,920</u>

NOTE G—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the entire amount of the City's \$329,523 in deferred revenue was unavailable.

NOTE H—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended June 30, 2006.

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due within one year</u>
Governmental activities:					
General obligation bonds	\$ 90,000	\$ -	\$ 11,000	\$ 79,000	\$ 12,000
Special assessment bonds	503,000	-	60,000	443,000	40,000
Installment purchase agreements	450,194	-	80,839	369,355	82,000
Other obligations	250,000	175,000	-	425,000	-
Compensated absences	<u>40,519</u>	<u>33,828</u>	<u>41,575</u>	<u>32,772</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 1,333,713</u>	<u>\$ 208,828</u>	<u>\$ 193,414</u>	<u>\$ 1,349,127</u>	<u>\$ 134,000</u>

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Due within one year
Business-type activities:					
Revenue bonds	\$ 3,114,000	\$ 51,000	\$ 106,000	\$ 3,059,000	\$ 67,000
Compensated absences	<u>19,425</u>	<u>22,551</u>	<u>22,048</u>	<u>19,928</u>	<u>-</u>
Business-type activity long-term liabilities	<u>\$ 3,133,425</u>	<u>\$ 73,551</u>	<u>\$ 128,048</u>	<u>\$ 3,078,928</u>	<u>\$ 67,000</u>
Component units:					
Limited tax development	<u>\$ 7,554,471</u>	<u>\$ -</u>	<u>\$ 496,733</u>	<u>\$ 7,057,738</u>	<u>\$ 318,000</u>

Governmental activities:

General obligation bonds:

Capital Improvement Bonds of 2004 payable in
annual installments of \$12,000 to \$14,000
through November 2011; interest at 4% \$ 79,000

Special assessment bonds:

\$265,000 Special Assessment Bonds of 1993
payable in annual installment of \$13,000 to
\$14,000 through August 2013; interest at rates
varying from 5.55% to 5.7% 109,000

\$69,000 Special Assessment Bonds of 1998 payable
in annual installments of \$7,000 through April
2008; interest at 5% 14,000

\$375,000 Special Assessment Bonds of 2003 payable
in annual installments of \$20,000 to \$35,000
through April 2018; interest at 3.6% 320,000

522,000

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Governmental activities:—Continued

Installment purchase agreements:

\$480,000 Non-interest bearing note payable in annual installments of \$48,000 plus fees; final payment due September 2008	\$ 144,000
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Notes payable to bank in annual installments of approximately \$42,800 through August 2011; including interest at 3.85%	225,355
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Other obligations:

Note payable to Michigan State Housing Development Authority; due upon sale or breach of mortgage on or before five years subsequent to note date; non-interest bearing	425,000
	<u>1,316,355</u>
Compensated absences	32,772
	<u>\$ 1,349,127</u>

Business-type activities:

Revenue bonds:

\$1,304,000 Sanitary Sewer System Revenue Bonds; payable in annual installments of \$13,000 to \$73,000 through August 2043, interest at 4.25%	\$ 1,281,000
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\$285,000 Ambac insured bonds of 1989 payable in annual installments of \$10,000 to \$15,000 through November 2013; interest at rates varying from 7.5% to 7.55%	95,000
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\$425,000 Water Supply System Revenue Bonds of 1992 payable in annual installments of \$25,000 to \$35,000 through September 2012; interest at rates varying from 6.3% to 6.4%	210,000
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\$1,500,000 Water Supply System Revenue Bonds of 2003 payable in annual installments of \$14,000 to \$51,000 through February 2043; interest at 4.25%	1,473,000
	<u>3,059,000</u>
Compensated absences	19,928
	<u>\$ 3,078,928</u>

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

Component units:

General obligation bonds:

\$200,000 Tax Increment Limited Obligation Bonds Series A of 1992 payable in annual installments of \$20,000 through September 2007; interest at 6.0%	\$ 40,000
\$495,000 Tax Increment Limited Obligation Bonds Series B of 1992 payable in annual installments of \$30,000 to \$45,000 through September 2012; interest at rates varying from 6.1% to 6.3%	255,000
\$7,300,000 Tax Increment Limited Obligation Bonds Series A of 1994 payable in annual installments of \$120,402 to \$453,234 through March 2024; interest at varying rates determined by formula, currently 5.68%	5,335,738
\$950,000 Tax Increment Limited Obligation Bonds Series B of 1994 payable in annual installments of \$50,000 to \$80,000 through October 2014; interest at rates varying from 6.0% to 6.5%	560,000
\$850,000 Tax Increment Limited Obligation Bonds Series C of 1994 payable in annual installments of \$45,000 to \$70,000 through October 2014; interest at rates varying from 7.2% to 7.4%	505,000
\$520,000 Tax Increment Limited Obligation Bonds Series D of 1994 payable in annual installments of \$30,000 to \$50,000 through October 2014; interest at rates varying from 7.5% to 7.625%	340,000
\$175,000 Tax Increment Limited Obligation Bonds of 1996; final payment of \$22,000 due October 2006; interest at 6.0%	22,000
	<u>\$ 7,057,738</u>

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE H—LONG-TERM DEBT—Continued

For governmental activities, claims and judgments, compensated absences are generally liquidated by the General Fund.

The special assessment bonds and the first two component unit Limited Obligation Bonds are backed by the full faith and credit of the City.

The \$7,300,000 1994 Tax Increment Limited Obligation Bonds, Series A, which are held by the City of Newaygo Tax Increment Finance Authority, are guaranteed by Donnelly Corporation. If captured tax increment revenue associated with Donnelly Corporation's facility is insufficient to meet the bond's current payment requirements, Donnelly Corporation will cover any shortfalls. If Donnelly Corporation covers any shortfalls due to insufficient captured tax increment revenue, the component unit will repay to Donnelly Corporation any captured tax increment revenue in excess of current bond payment requirements in future years until Donnelly Corporation is reimbursed in full for all costs associated with its guarantee.

The City was in compliance in all material respects with all the revenue bond ordinances at June 30, 2006.

Annual debt service requirements to maturity for debt outstanding as of June 30, 2006 follows:

Year ending June 30,	Governmental activities		Business-type activities		Component units	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 134,000	\$ 30,988	\$ 67,000	\$ 135,626	\$ 318,000	\$ 414,573
2008	186,519	26,924	63,000	131,946	312,364	395,510
2009	285,780	22,786	75,000	128,035	323,880	376,209
2010	140,196	18,714	76,000	123,709	346,799	355,800
2011	267,666	15,016	72,000	119,518	380,584	333,568
2012-2016	237,194	32,814	287,000	542,505	2,174,161	1,272,696
2017-2021	65,000	3,600	236,000	489,897	2,161,980	674,184
2022-2026	-	-	297,000	433,522	1,039,970	100,184
2027-2031	-	-	376,000	362,268	-	-
2032-2036	-	-	473,000	272,445	-	-
2037-2041	-	-	598,000	159,163	-	-
2042-2046	-	-	439,000	28,877	-	-
	<u>\$ 1,316,355</u>	<u>\$ 150,842</u>	<u>\$ 3,059,000</u>	<u>\$ 2,927,511</u>	<u>\$ 7,057,738</u>	<u>\$ 3,922,724</u>

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE I—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City manages its liability and property risk by participating in the Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the City.

Lease

The \$7,300,000 1994 Tax Increment Limited Obligation Bonds were issued to construct a manufacturing facility for Donnelly Corporation. All captured tax increment revenues associated with this facility are to be used to repay the bonds issued to construct the facility. The Tax Increment Finance Authority retains ownership of the facility and leases the facility for \$1 per year to Donnelly Corporation for thirty years or until the bonds associated with its construction are retired. Donnelly Corporation is responsible for all operating and maintenance costs. Donnelly Corporation has an option to purchase the facility, upon retirement of the bond issue, for \$1.

City of Newaygo
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2006

NOTE J—PENSION PLANS

Defined Contribution Plans

The City provides pension benefits for all of its full-time employees through two money purchase defined contribution plans. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Salaried and hourly employees who have attained the age of 18, have completed ninety days of service and are not covered by a collective bargaining agreement, shall be eligible to participate in the plan. The City has one plan for salaried employees and one plan for hourly employees. Each plan requires the City to contribute an amount equal to 8 percent of the employee's annual compensation each plan year and employees are required to contribute 2 percent of their annual compensation. Salaried employees are immediately vested in the City's contribution and the hourly employees are 20 percent vested in the City contributions and earnings allocated to the employee account for each year of service. Any forfeitures are reallocated to participants with the regular contribution. Plan provisions and contribution requirements are established and may be amended by the City Council.

For fiscal year 2006, the City's total contribution to both defined contribution plans was approximately \$48,000, and the employee contributions were approximately \$12,000.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

NOTE K—ECONOMIC DEPENDENCY

The City's General Fund property tax revenue growth is limited due to the TIFA and LDFA, which capture property tax value increases. The General Fund's property tax value captured by the TIFA and LDFA is in excess of 75 percent of the City's property tax value base. Property tax revenues represent approximately 30 percent of the General Fund's revenues.

REQUIRED SUPPLEMENTARY INFORMATION

City of Newaygo
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2006

	Budgeted amounts		Actual	Variance with final budget- positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 275,500	\$ 250,000	\$ 271,782	\$ 21,782
Licenses and permits	15,400	15,400	17,386	1,986
Intergovernmental revenues				
Federal	5,500	5,500	4,379	(1,121)
State	181,100	181,100	168,740	(12,360)
Local	202,000	202,000	202,313	313
Charges for services	143,100	143,100	141,320	(1,780)
Fines and forfeitures	23,000	23,000	9,827	(13,173)
Investment earnings	4,550	4,550	13,409	8,859
Other	22,200	22,200	34,311	12,111
Total revenues	872,350	846,850	863,467	16,617
EXPENDITURES				
Current				
General government				
City Council	15,806	15,806	14,469	1,337
City manager	34,869	34,869	32,840	2,029
Elections	3,100	3,100	2,010	1,090
Board of review	1,200	1,200	1,110	90
Clerk	30,463	31,987	30,012	1,975
Treasurer	33,767	33,767	31,063	2,704
Assessor	16,000	17,000	16,698	302
Attorney	26,000	53,000	52,122	878
City offices	68,302	68,302	65,782	2,520
Cemetery	40,531	40,531	40,455	76
Public safety				
Law enforcement	325,604	325,604	313,140	12,464
Public works	143,624	155,624	154,553	1,071
Community and economic development				
Planning	800	2,250	5,287	(3,037)
Culture and recreation				
Parks	60,523	65,992	65,901	91
Other governmental functions	49,300	40,300	37,884	2,416
Capital outlay	6,300	6,300	6,683	(383)
Total expenditures	856,189	895,632	870,009	25,623
Excess of revenues over (under) expenditures	16,161	(48,782)	(6,542)	42,240
OTHER FINANCING USES				
Transfers out	15,380	15,380	14,429	(951)
Net change in fund balance	\$ 781	\$ (64,162)	(20,971)	\$ 43,191
Fund balance at July 1, 2005			221,588	
Fund balance at June 30, 2006			\$ 200,617	

City of Newaygo
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Major Streets Fund
For the year ended June 30, 2006

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues - State	\$ 132,000	\$ 132,000	\$ 124,223	\$ (7,777)
Charges for services	-	-	2,447	2,447
Investment earnings	500	500	1,800	1,300
Total revenues	132,500	132,500	128,470	(4,030)
EXPENDITURES				
Current				
Public works				
Administration	11,500	11,576	11,576	-
Construction	50,287	50,287	10,528	39,759
Routine maintenance	44,978	44,978	34,190	10,788
Traffic services	15,475	15,475	10,908	4,567
Winter maintenance	45,593	45,593	37,763	7,830
Total expenditures	167,833	167,909	104,965	62,944
Excess of revenues over (under) expenditures	(35,333)	(35,409)	23,505	58,914
OTHER FINANCING USES				
Transfers out	10,000	10,000	10,000	-
Net change in fund balance	\$ (45,333)	\$ (45,409)	13,505	\$ 58,914
Fund balance at July 1, 2005			87,975	
Fund balance at June 30, 2006			\$ 101,480	

OTHER SUPPLEMENTAL INFORMATION

City of Newaygo
COMBINING BALANCE SHEET
Other Governmental Funds
June 30, 2006

		Special Revenue		Capital Projects			Debt Service			
	Total other governmental funds	Local Streets	Principal Shopping District	Riverfront Park Development	MDOT Enhancement Fund	CDBG	Mason Dr. Special Assessment	Barton/Div Special Assessment	DPW Building Debt	City Hall
ASSETS										
Cash and investments	\$ 98,631	\$ 19,693	\$ 708	\$ 29,486	\$ -	\$ 34	\$ 48,710	\$ -	\$ -	\$ -
Special assessments receivable	75,488	-	-	-	-	-	67,671	7,817	-	-
Due from other governmental units	14,813	14,813	-	-	-	-	-	-	-	-
Total assets	<u>\$ 188,932</u>	<u>\$ 34,506</u>	<u>\$ 708</u>	<u>\$ 29,486</u>	<u>\$ -</u>	<u>\$ 34</u>	<u>\$ 116,381</u>	<u>\$ 7,817</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES										
Liabilities										
Accounts payable	\$ 14,646	\$ 307	\$ 708	\$ 13,597	\$ -	\$ 34	\$ -	\$ -	\$ -	\$ -
Due to other funds	173	-	-	-	-	-	-	173	-	-
Deferred revenue	71,487	-	-	-	-	-	67,671	3,816	-	-
Total liabilities	86,306	307	708	13,597	-	34	67,671	3,989	-	-
Fund balances										
Reserved for:										
Debt service	52,538	-	-	-	-	-	48,710	3,828	-	-
Capital projects	15,889	-	-	15,889	-	-	-	-	-	-
Unreserved										
Special revenue funds	34,199	34,199	-	-	-	-	-	-	-	-
Total fund balances	102,626	34,199	-	15,889	-	-	48,710	3,828	-	-
Total liabilities and fund balances	<u>\$ 188,932</u>	<u>\$ 34,506</u>	<u>\$ 708</u>	<u>\$ 29,486</u>	<u>\$ -</u>	<u>\$ 34</u>	<u>\$ 116,381</u>	<u>\$ 7,817</u>	<u>\$ -</u>	<u>\$ -</u>

City of Newaygo
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Governmental Funds
For the year ended June 30, 2006

	Total other governmental funds	Special Revenue		Capital Projects			Debt Service			
		Local Streets	Principal Shopping District	Riverfront Park Development	MDOT Enhancement Fund	CDBG Fund	Mason Dr. Special Assessment	Barton/Div Special Assessment	DPW Building Debt	City Hall
REVENUES										
Intergovernmental revenues - State	\$ 59,355	\$ 59,355	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	33,575	-	33,575	-	-	-	-	-	-	-
Investment earnings	8,215	368	-	710	-	-	6,317	820	-	-
Other	94,707	-	-	30,000	-	-	10,442	4,345	-	49,920
Total revenues	195,852	59,723	33,575	30,710	-	-	16,759	5,165	-	49,920
EXPENDITURES										
Current										
Public works	89,261	55,686	33,575	-	-	-	-	-	-	-
Debt service										
Principal	79,000	-	-	-	-	-	13,000	7,000	11,000	48,000
Interest and fees	13,490	-	-	-	-	-	6,791	1,350	3,429	1,920
Capital outlay	109,975	-	-	47,888	10,153	51,934	-	-	-	-
Total expenditures	291,726	55,686	33,575	47,888	10,153	51,934	19,791	8,350	14,429	49,920
Excess of revenues over (under) expenditures	(95,874)	4,037	-	(17,178)	(10,153)	(51,934)	(3,032)	(3,185)	(14,429)	-
OTHER FINANCING SOURCES										
Transfers in	24,429	10,000	-	-	-	-	-	-	14,429	-
Net change in fund balances	(71,445)	14,037	-	(17,178)	(10,153)	(51,934)	(3,032)	(3,185)	-	-
Fund balances at July 1, 2005	174,071	20,162	-	33,067	10,153	51,934	51,742	7,013	-	-
Fund balances at June 30, 2006	<u>\$ 102,626</u>	<u>\$ 34,199</u>	<u>\$ -</u>	<u>\$ 15,889</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,710</u>	<u>\$ 3,828</u>	<u>\$ -</u>	<u>\$ -</u>

City of Newaygo
COMBINING STATEMENT OF NET ASSETS
Internal Service Funds
June 30, 2006

ASSETS

	Building Authority	Equipment Pool	Total
CURRENT ASSETS			
Cash and investments	\$ -	\$ 57,693	\$ 57,693
NONCURRENT ASSETS			
Capital assets			
Vehicles and equipment	-	655,038	655,038
Less accumulated depreciation	<u>-</u>	<u>(382,469)</u>	<u>(382,469)</u>
Total noncurrent assets	<u>-</u>	<u>272,569</u>	<u>272,569</u>
Total assets	-	330,262	330,262

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable	-	18,135	18,135
Accrued liabilities	-	6,500	6,500
Bonds and other obligations, due within one year	<u>-</u>	<u>34,100</u>	<u>34,100</u>
Total current liabilities	-	58,735	58,735
NONCURRENT LIABILITIES			
Bonds and other obligations, less amounts due within one year	<u>-</u>	<u>191,255</u>	<u>191,255</u>
Total liabilities	<u>-</u>	<u>249,990</u>	<u>249,990</u>
NET ASSETS			
Invested in capital assets, net of related debt	-	47,214	47,214
Unrestricted	<u>-</u>	<u>33,058</u>	<u>33,058</u>
Total net assets	<u>\$ -</u>	<u>\$ 80,272</u>	<u>\$ 80,272</u>

City of Newaygo
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Internal Service Funds
For the year ended June 30, 2006

	<u>Building Authority</u>	<u>Equipment Pool</u>	<u>Total</u>
REVENUES			
Charges for services	\$ -	\$ 176,233	\$ 176,233
OPERATING EXPENSES			
Operations	-	90,381	90,381
Depreciation	<u>-</u>	<u>63,724</u>	<u>63,724</u>
Total operating expenses	<u>-</u>	<u>154,105</u>	<u>154,105</u>
Operating income	-	22,128	22,128
NONOPERATING EXPENSES			
Interest expense	<u>-</u>	<u>(8,141)</u>	<u>(8,141)</u>
Income before transfer out	-	13,987	13,987
Transfers out	<u>(220,189)</u>	<u>-</u>	<u>(220,189)</u>
Change in net assets	(220,189)	13,987	(206,202)
Net assets at July 1, 2005	<u>220,189</u>	<u>66,285</u>	<u>286,474</u>
Net assets at June 30, 2006	<u><u>\$ -</u></u>	<u><u>\$ 80,272</u></u>	<u><u>\$ 80,272</u></u>

City of Newaygo
COMBINING STATEMENT OF CASH FLOWS
Internal Service Funds
For the year ended June 30, 2006

	Building Authority	Equipment Pool	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from interfund services provided	\$ -	\$ 176,233	\$ 176,233
Payments to suppliers	-	(62,514)	(62,514)
Payments to employees	-	(12,058)	(12,058)
Net cash provided by operating activities	-	101,661	101,661
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	-	(20,300)	(20,300)
Principal paid on capital debt	-	(32,839)	(32,839)
Interest paid on capital debt	-	(9,941)	(9,941)
Net cash used for capital and related financing activities	-	(63,080)	(63,080)
Net increase in cash and investments	-	38,581	38,581
Cash and investments at July 1, 2005	-	19,112	19,112
Cash and investments at June 30, 2006	\$ -	\$ 57,693	\$ 57,693
Reconciliation of operating income (loss) to net cash provided by operating activities			
Operating income	\$ -	\$ 22,128	\$ 22,128
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation expense	-	63,724	63,724
Change in assets and liabilities			
Accounts payable	-	15,809	15,809
Net cash provided by operating activities	\$ -	\$ 101,661	\$ 101,661

City of Newaygo
COMBINING STATEMENT OF ASSETS AND LIABILITIES
 Agency Funds
 June 30, 2006

	<u>Total agency funds</u>	<u>Tax Collection</u>	<u>Museum</u>	<u>Escrow</u>	<u>Historic Clock Tower</u>	<u>Arts and Mural</u>
ASSETS						
Cash and investments	\$ 17,313	\$ 9,920	\$ 40	\$ 47	\$ 4,434	\$ 2,872
Due from other governmental units	<u>10,576</u>	<u>10,576</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 27,889</u>	<u>\$ 20,496</u>	<u>\$ 40</u>	<u>\$ 47</u>	<u>\$ 4,434</u>	<u>\$ 2,872</u>
LIABILITIES						
Due to other governmental units	\$ 20,496	\$ 20,496	\$ -	\$ -	\$ -	\$ -
Deposits held for others	<u>7,393</u>	<u>-</u>	<u>40</u>	<u>47</u>	<u>4,434</u>	<u>2,872</u>
Total liabilities	<u>\$ 27,889</u>	<u>\$ 20,496</u>	<u>\$ 40</u>	<u>\$ 47</u>	<u>\$ 4,434</u>	<u>\$ 2,872</u>

OTHER DOCUMENTS

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

October 23, 2006

Honorable Mayor and Members
of the City Council
City of Newaygo
Newaygo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units and each major fund of the City of Newaygo as of and for the year ended June 30, 2006, which collectively comprise the City of Newaygo's basic financial statements and have issued our report thereon dated October 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Newaygo's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Newaygo's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable conditions have been reported to the management of the City of Newaygo in a separate letter dated October 23, 2006.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable conditions described above are material weaknesses.

BRICKLEY DELONG

Honorable Mayor and Members
of the City Council
October 23, 2006
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Newaygo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances on noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 23, 2006

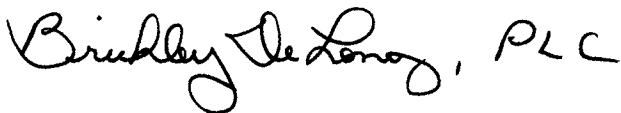
City Council
City of Newaygo
Newaygo, Michigan

In planning and performing our audit of the financial statements of the City of Newaygo for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City of Newaygo's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Brickley DeLong, PLC". The signature is written in a cursive, flowing style.

PRIOR YEAR OTHER REPORTABLE CONDITIONS STILL APPLICABLE

Recommendation 1: The accounting department should utilize a monthly closing checklist in conjunction with the preparation of monthly financial statements.

During our testing, we noted that a significant number of general ledger accounts require numerous adjusting journal entries to correct account activity during the year. Based on our review and discussions with personnel, many of the accounts requiring adjustment were not reviewed or adjusted throughout the year.

The utilization of a monthly closing checklist would require personnel to review significant account balances for accuracy of a monthly basis through analysis of account activity, comparison to supporting documentation and/or reconciliation with detailed schedules. This month end checklist would also increase the accuracy of interim statement prepared during the year.

Recommendation 2: The various due from (due to) other fund account balances and interfund transfer accounts should be reconciled on a monthly basis.

During our testing, we noted that due from (due to) other fund account balances and interfund transfer accounts were not reconciled on a regular basis during the year ended. This caused such accounts to be incorrectly reported on monthly financial statements and required a number of adjusting journal entries at the end of the year.

The reconciliation of all interfund accounts on a monthly basis would increase the accuracy of monthly financial statements and reduce the reconciliation and adjustment process at year end.

We consider the following other reportable conditions contained in our November 5, 2005 letter as still applicable:

Recommendation 2: Bank reconciliations should be prepared and reconciled to the general ledger on a timely basis.